

**GOVERNMENT OF INDIA
PETROLEUM AND NATURAL GAS
LOK SABHA**

UNSTARRED QUESTION NO:2062
ANSWERED ON:13.03.2008
INCREASE IN THE PRICE OF PETROLEUM PRODUCTS
Scindia Shri Jyotiraditya Madhavrao

Will the Minister of PETROLEUM AND NATURAL GAS be pleased to state:

- (a) whether the Government has worked any plan or strategy to meet the challenge posed by spiralling cost of crude in the international market and to tide over the situation without resorting to hike in the prices of consumer products like kerosene and LPG, by way of duty cuts;
- (b) if so, the details thereof;
- (c) the steps taken in pursuance thereof; and
- (d) the steps taken to protect the interests of farmers and BPL family from the adverse impact of price rise of petroleum products?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF PETROLEUM AND NATURAL GAS (SHRI DINSHAPATEL)

(a)to(c): The duties on sensitive petroleum products namely petrol, diesel, domestic LPG and PDS kerosene have been rationalized to mitigate the impact of high international oil prices on their retail selling prices. The Customs Duty on petrol and diesel has been reduced from 10% to 7.5% effective 14.6.2006 and the Ad-valorem component of Excise Duty on unbranded petrol and diesel has been abolished with effect from 1.3.2008. The Customs Duty and Excise Duty on domestic LPG and PDS kerosene were also abolished with effect from 1.3.2005. Further, consequent to enactment of Finance Bill 2006, domestic LPG becomes "Declared Goods" under CST Act and the maximum Sales Tax/VAT rate is 4% effective 19.04.06 across all the States/ Union Territories.

The prices of domestic LPG and PDS kerosene which are considered as common man's fuels have not been increased since November, 2004 and March, 2002 respectively, despite steep increase in the international oil prices.

(d): The international prices of crude oil and petroleum products have remained high and volatile since 2004. As passing on the entire impact of the increase in the oil prices to the consumers would have resulted in acute hardship to the common man, the retail selling prices of sensitive petroleum products have not been increased in tandem with the international oil prices. Due to this, the Public Sector Oil Marketing Companies (OMCs) are incurring under-recoveries on domestic sale of the sensitive petroleum products. To deal with the steep escalation in international oil prices, the Government has adopted the principle of equitable burden sharing between the Government, the oil PSUs and consumers to protect the interests of the common man and vulnerable sections of society, as also the financial health of OMCs.

In this context, the Government has made a marginal increase in petrol and diesel prices by Rs. 2/litre and Re. 1/litre respectively with effect from 15.2.2008, which is actually in the nature of a restoration of the retail prices of these products to the price level operating before February, 2007. Even after this, it is estimated that the OMCs would suffer under-recoveries of about Rs. 70,000 crore on the sale of petrol, diesel PDS kerosene and domestic LPG during 2007-08. The Government has issued Oil Bonds and the Upstream Oil Companies have also contributed by offering discount on crude oil and petroleum products to partially compensate the under-recoveries of OMCs.

The Government is closely monitoring the international oil prices and will continue to protect the interests of the consumers, particularly the vulnerable sections of society.